



Treasury Inspector General for Tax Administration Office of Audit

MANY TAXPAYERS WHO WERE NOT ELIGIBLE RECEIVED ADDITIONAL EDUCATION CREDITS INTENDED FOR THOSE ATTENDING SCHOOLS IN MIDWESTERN DISASTER AREAS

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Highlights

Highlights of Report Number: 2010-40-123 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Tax credits are available to help taxpayers offset the costs of higher education. These credits are available to certain taxpayers who pay qualified education expenses for higher education for themselves, their spouses, or dependents. The Hope Credit is limited to eligible students enrolled in their first two years of post-secondary education. Congress passed the Heartland Disaster Tax Relief Act of 2008 with provisions benefitting taxpayers affected by a major disaster. One provision allowed taxpayers with eligible students attending eligible educational institutions in the designated Midwestern Disaster Areas to claim twice the qualifying amount of education credits. For Tax Year 2008, this increased the maximum amount of Hope Credit from \$1,800 to \$3,600 for each qualifying student.

Some taxpayers are claiming more than the standard maximum amount of Hope Credit even though the listed students do not qualify under the Heartland Disaster Tax Relief Act of 2008. In other instances, the students may not qualify for any portion of the Hope Credit.

WHY TIGTA DID THE AUDIT

This audit was initiated because, during a prior audit of education credits, TIGTA found indications that control weaknesses may exist that allow taxpayers to claim Hope Credits greater than the amounts allowed. The overall objective of this audit was to determine whether Internal Revenue Service (IRS) controls were in place to ensure only eligible taxpayers received education credit tax relief available to affected taxpayers in the Midwestern Disaster Areas.

WHAT TIGTA FOUND

TIGTA's review of a statistically valid sample of 383 tax returns with claims for more than the standard maximum amount of Hope Credit determined that 197 of the claims were for students who did not qualify for the

Hope Credit, did not attend school in the Midwestern Disaster Areas, or may not have attended school at all. TIGTA found that the taxpayers making these claims received \$224,504 more than they were entitled to. Based on this data, TIGTA estimates that taxpayers filing 48,940 tax returns with such claims erroneously received almost \$55.8 million in excessive Hope Credits for Tax Year 2008.

Overall, TIGTA found that the IRS has no controls in place to determine whether students qualify for more than the standard maximum amount. TIGTA also found that there is no maximum limit programmed for the amount of Hope Credit that can be claimed other than the adjusted gross income limitations. The only other limitation appears to be a taxpayer's tax liability.

WHAT TIGTA RECOMMENDED

The IRS should ensure that only qualifying taxpayers are allowed to receive more than the normal maximum amount of Hope Credit allowed. Taxpayers who have improperly received an excessive amount of Credit should be examined, and any excessive amounts claimed should be recovered. Additional steps should also be taken to ensure that taxpayers qualify for the additional amount. The IRS should also ensure adherence to increased maximums on any future provisions.

IRS management agreed with three of the recommendations and partially agreed with one recommendation. Management plans to conduct examinations of improper claims, evaluate the feasibility of an automated process to verify claims, update computer processing controls to limit the amount of Credit that can be claimed, and make modifications to forms to increase compliance in the future.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040123fr.pdf>.

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